

Is Now the Time to Buy Barrick Gold Corp.?

Description

On Friday, the price of gold fell by 2.6%, reaching its lowest level since early December, and gold mining stocks followed suit. For example, **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) shares dropped by 6.4% on the day, has also fallen considerably on Monday (as of this writing).

So, what exactly caused this gold price decline? More importantly, which way is the gold price headed? Finally, how should investors react?

A strong jobs report

It's no secret what caused the price of gold to go down. On Friday, the U.S. Bureau of Labor Statistics reported that the United States added 295,000 new jobs in the month of February, well ahead of the 240,000 expected by economists. The unemployment rate also dropped to 5.5%, the lowest rate since May 2008.

More bad news to come?

The strong jobs report has boosted speculation that the Federal Reserve will raise interest rates. This is a gold investor's worst nightmare, since higher rates would prompt investors to switch out of gold and into bonds. Chairwoman Janet Yellen is reluctant to raise rates until we see higher inflation, but if more strong job numbers come, then this scenario may become reality.

As Citi analyst David Wilson put it, "Data on Friday was so significantly higher than expected that the market started to think that the Fed will have to start changing their language at the next meeting."

If that wasn't enough, technical indicators point to more decreases in the gold price. So, at this point, sub-US\$1,000 gold (which we haven't seen since 2009) is starting to look like a distinct possibility. Investors must be ready for this.

How should investors react?

To answer this question, let's take a look at what US\$1000 gold means for Barrick Gold.

Barrick expects to produce 6.1 million ounces of gold in 2015 at an all-in cost of US\$880 per ounce. So, at a US\$1,000 gold price, that would equal about \$730 million in profits. Unfortunately, due to the company's high debt load, finance costs are predicted to total over US\$800 million. Barrick wouldn't even be able to cover interest payments by selling gold. Making matters worse, the company has other big expenses not included in these numbers, such as exploration and G&A.

Barrick would have trouble surviving with a gold price this low, especially in the long term, once debt starts becoming due. Is this reflected in the company's stock price? Well, not really. Barrick is valued by the market at over US\$12 billion.

It's no wonder that Barrick's share price is falling so quickly—investors are starting to realize that gold

prices could plummet, and are adjusting accordingly. It's something you don't want to be a part of.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
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